

February 12, 2008

To: Members of the House of Representatives

Re: Opposition to H.R. 5244, the Credit Cardholders' Bill of Rights Act of 2008

The financial services market in the United States is the most competitive, innovative and flexible financial market in the world and this has greatly benefited consumers, businesses, and our economy. Cards offer consumers access to a safe, convenient, and flexible source of funding for their everyday needs, to make major purchases, and for dealing with emergencies and unexpected expenses – which is especially important in today's highly volatile economy. Many small businesses rely on credit cards to assist them in funding their operations, with over 50 percent of such businesses benefiting from the availability of cards as a funding source.

House Financial Institutions and Consumer Credit Subcommittee Chairwoman Carolyn Maloney (D-NY) has introduced legislation, the Credit Cardholders' Bill of Rights Act of 2008 (H.R. 5244), that seeks to regulate various card practices. **The undersigned organizations believe that this legislation will have far greater long-term consequences for consumers, businesses, and the broader economy than may currently be understood, and we strongly oppose it.**

We are deeply concerned that this legislation, by directly and indirectly imposing limits on fundamental risk management activities, interest calculations, and other responsible business practices, will increase the overall cost of credit to consumers and businesses, reduce access to credit for those with imperfect or limited credit histories, and limit lower-cost consumer options. These consequences, whether intended or unintended, would occur at a time when the economy can least afford to add new constraints to an already tightened credit market.

For example, the bill:

- Micro-manages the way card issuers price their product, both limiting the ability to charge interest on loans in various circumstances and legislatively mandating certain loan terms, such as when and how long a loan should be “interest free.” This will cause the overall cost of providing credit to increase, and that cost will be passed on to consumers through higher rates.
- Significantly limits the ability of card issuers to price for risk, which works in direct conflict with fundamental principles of safe and sound lending. Currently, millions of consumers and many small businesses benefit from access to low-rate credit card funding because under industry pricing models, people who pose higher risk pay higher rates. Prohibiting card issuers from pricing for risk (i.e., charging higher rates for higher risk) forces them to re-price everyone to cover the higher risk. This hurts those with imperfect or limited credit histories, who may even lose access to cards, as well as small business operations (many of which use personal credit cards to fund start-up operations or otherwise meet business funding needs).

- Restricts how card issuers may be paid for extending credit. The bill dictates repayment terms by deciding – legislatively, as opposed to contract terms – how payments will apply to card balances subject to different interest rates. This directly impacts the pricing of these loans and forces promotional rate cards (e.g., offers for “0 percent interest for six months on transferred balance”) to be priced higher or not offered at all due to the underlying cost of funds and underwriting risk involved. The only parties that lose in this situation are individuals and businesses that no longer have access to such competitive options to manage their borrowing costs.

The net effect of these provisions is far more extensive than people assume, effectively forcing card issuers to increase the price of credit while at the same time limiting credit access for individuals and businesses that may be relying on such access to make ends meet or fund their operations.

Given these potential consequences to individuals, businesses, and the broader economy, the undersigned organizations urge you to oppose H.R. 5244.

Thank you for considering our views.

Sincerely,

American Bankers Association
American Financial Services Association
Consumer Bankers Association
Financial Services Forum
Independent Community Bankers of America
National Association of Federal Credit Unions
National Association of Manufacturers
The Financial Services Roundtable
U.S. Chamber of Commerce